

# City of Detroit


## CITY COUNCIL

IRVIN CORLEY, JR.  
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ANNE MARIE LANGAN  
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: March 3, 2010

RE: Fiscal Analysis Division's Final Review of the PA 198 Abatements with Employment and Investment Shortfalls based on Planning and Development Department's PA 198 of 1974: Jobs and Investment Annual Monitoring Survey Report of 2008, as amended ***(Line item 2 on tomorrow's Planning and Economic Development Committee Agenda)***

Given the City's state of affairs, Councilman Kwame Kenyatta requested Fiscal to take a closer look at tax abatement recipients who were not meeting their jobs and investment goals promised to Council, based on 2008 survey report provided by PDD.

In fact, through a request from Councilman Kenneth V. Cockrel, Jr., your Honorably Body is considering tightening Industrial Facilities Exemption Certificate (IFEC) agreement language allowing for clawbacks if goals are not being met. The Research & Analysis Division and Fiscal are addressing that issue in separate reports.

To remind the Council, according to the 2008 report, there are 47 abatements that are deficient in jobs and or investments, but the 47 abatements are linked to 28 companies. This is due to the fact that several companies have multiple abatements (Chrysler 8, American Axle 5, etc.). The number of companies may even be reduced to 27 if Superb Manufacturing, a part of the Bing Group, if it is added to Bing Steel's three abatements.

Council's current unofficial criteria is to consider a show cause hearing with those companies that are in a profit mode, but have not met their goals.

Out of the 28 abatement holders, we received financial statements to support the positions of 13 deficient abatement holders. Our attached spreadsheet, which provides our comments and recommendations for each company, includes our analysis of the financial data. We did not receive any financial data from the

remaining 15 deficient abatement holders, which may be due to the fact that in many cases, privately held companies do not make their financial information publicly available. Fiscal, however, reviewed other materials, such as the survey information, and had conversations with abatement holder representatives where appropriate in lieu of financials, for our extended review.

Based on our extended review of abatements with deficient numbers, we conclude that a show cause hearing between the company and Council is unnecessary to explain why a company has not met its hiring and investment goals for 44 of the 47 abatements under review primarily because of the following reasons:

- The poor local and national economy, particularly as it relates to the automotive industry, which most abatement holders are inextricably tied to, has reduced client base, negating the need for more full time equivalents, and some cases, the need to invest at the promised level;
- The company is showing strained operations financially, and would do so even more so if the abatement was revoked and/or additional hiring was done to meet hiring goals;
- Company restructuring, as in the case of GM and Chrysler, has led to the inability to meet promised goals;
- 26 abatements have, or are about to, expire. Our review revealed that one abatement expired in 2007, six expired in 2008, nine expired in 2009, five will expire in 2010 and five will expire in 2011. It is our conclusion that it would be moot for the Council to hold hearings for any of 26 abatements that have or will expire by January 1, 2011, given the fact that the State Tax Commission's possible action would only impact abatements for the year 2011 onward. Council should note that we will follow-up with the Assessor's Office, to verify that the abatements set for expiration have been in fact recorded accurately; and
- In the case of one abatement, certificate number 97-562, Diversified Machine, the plant closed on December 31, 2008. The certificate is set to expire by January 2011.

However, our review of PDD's follow-up data has led us to recommend three show cause hearings, all with Diversified Machine, as indicated below:

<b>Certificate Number</b>	<b>Company Name</b>	<b>Comment</b>	<b>Recommendation</b>
<b>02-467</b>	<b>Diversified Machine, Inc</b>	<b>Plant Closed 12/31/08 due to market conditions and loss of customer orders related to the automotive industry and car sales.</b>	<b>Need show cause hearing. Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.</b>
<b>06-688</b>	<b>Diversified Machine, Inc</b>	<b>Plant Closed 12/31/08.</b>	<b>Need show cause hearing. Human Rights/DEGC to confirm closing.</b>
<b>98-725</b>	<b>Diversified Machine, Inc</b>	<b>Plant Closed 12/31/08. Certificate to expire in 2012.</b>	<b>No show cause hearing. Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.</b>

Council should also note that even though based on further analysis, we make updated recommendations regarding the 2008 198 abatements, we will have the opportunity to review the abatements again based on the 2009 surveys that should arrive at PDD very shortly.

Please contact us if we can be of any further assistance.

Council Divisions  
 Auditor General's Office  
 Warren Palmer, Planning & Development Department  
 Marja M. Winters, Planning & Development Department  
 Brian Watkins, Planning & Development Department  
 Clinton Griffin, Planning & Development Department  
 Norman White, Chief Financial Officer  
 Pamela Scales, Budget Director  
 Linda M. Bade, Chief Assessor  
 Kim Miller, finance Assessors  
 Christine Granger, Human Rights  
 Gwendolyn Cook-Jones, Human Rights  
 Samuel Owens, Human Rights  
 Malinda, Jensen, DEGC  
 Kamau Marable, Mayor's Office

*TaxAbateMR2008 PDD Follow-up Report.doc*

**Fiscal Final Review of 2008 PA 198 Abatements with Employment and Investment Shortfalls**

<b>Certificate Number</b>	<b>Company Name</b>	<b>Jobs Benchmark met</b>	<b>Investment Benchmark met</b>	<b>Project Completed</b>	<b>Actual % of Jobs Projection</b>	<b>Financial Survey Received</b>	<b>Comment</b>	<b>Recommendation</b>
02-250	Daimler Chrysler Corporation	no	no	yes	35.84%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring, and new company, Chrysler Group LLC	No show cause hearing
01-440	Ideal Shield	no	yes	yes	20.75%	no	In lieu of financials other information reviewed. Privately held co. <b>Actually, original 198 application related to Ideal Shield, which promised to retain 22 jobs and create 10 more. Company has met employment goals since it had 33 employees at December 31, 2008. Company has other subsidiaries located in Detroit, employing a total of 119 people.</b>	No show cause hearing
02-467	Diversified Machine, Inc	no	no	yes	22.71%	no	Plant Closed 12/31/08 due to market conditions and loss of customer orders related to the automotive industry and car sales. <b>Certificate expired in 2014.</b>	<b>Need show cause hearing.</b> Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.
98-334	LeMica	no	no	yes	37.50%	no	Door business down 50% in U.S. Door industry sharply affected by declines in new home construction and existing home resales. <b>Certificate expires in 2011.</b>	No show cause hearing
98-674	General Motors	no	no	yes	37.00%	no	Contemplated production reduction. In lieu of financials other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restruturing and new company. <b>Certificate to expire in 2011.</b>	No show cause hearing

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<b>06-688</b>	<b>Diversified Machine, Inc</b>	no	no	yes	37.60%	no	Plant Closed 12/31/08.	<b>Need show cause hearing.</b> Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.
97-642	Daimler Chrysler Corporation	no	no	yes	38.73%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company, Chrysler Group LLC. <b>Certificate expires in 2010.</b>	No show cause hearing. Assessors to remove from tax by December 31, 2010.
97-192	Daimler Chrysler Corporation	no	no	yes	41.58%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company, Chrysler Group LLC. <b>Certificate expires in 2010.</b>	No show cause hearing. Assessors to remove from tax after December 31, 2010.
<b>96-192</b>	<b>General Motors</b>	no	no	yes	39.92%	no	Contemplated production reduction. In lieu of financials other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company. <b>Certificate expired in 2007.</b>	No show cause hearing. Will check with Assessors to remove from tax roll.
00-693	Daimler Chrysler (New Mack Engine I)	no	no	yes	41.58%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company, Chrysler Group LLC.	No show cause hearing

# Fiscal Final Review of 2008 PA 198 Abatements with Employment and Investment Shortfalls

Certificate Number	Company Name	Jobs Benchmark met	Investment Benchmark met	Project Completed	Actual % of Jobs Projection	Financial Survey Received	Comment	Recommendation
00-548	Roy Smith Company	no	yes	yes	41.67%	yes	Local recession has caused downturn in gas and welding industry. 2008 financials show marginal net income that would plummet to net loss if total promised jobs were met. Company exceeded investment goal by \$600,000	No show cause hearing
02-159	Federal Reserve Bank of Chicago	no	yes	yes	46.91%	yes	<u>Business and Federal Checking Act 21</u> : an act of Congress which eliminated paper checks resulted in the reduction of staff at 40 branches nationwide (Federal Reserve Banks). Financials show total income distributed to U.S. Treasury to pay interest on loans. Fed. Rsv did exceed promised level of investment by \$40 million.	No show cause hearing
02-513	PTI Paint Satellite	no	yes	no	50.97%	yes	Company provides auto underbody painting services and cut backs in auto client business has significantly cut operations. 2008 financials show huge loss.	No show cause hearing
97-565	Bing Steel Management, Inc	no	yes	yes	53.93%	no	Auto production decrease. Company may be up for sale. Company exceeded investment goal by \$1.5 million. <b>Certificate expires in 2011.</b>	No show cause hearing
03-574	Daimler Chrysler (Jefferson Assembly)	no	no	yes	55.50%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company, Chrysler Group LLC.	No show cause hearing
97-546	International Hardcoat	no	yes	yes	59.04%	no	Poor economic conditions and customers movings operations out of the country or going out of business. <b>Certificate expired in 2009.</b>	No show cause hearing

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98-670	Daimler Chrysler (New Mack Engine II)	no	no	yes	64.67%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company, Chrysler Group LLC.	No show cause hearing
99-722	American Axle & Manufacturing	no	no	yes	67.15%	yes	Change in business conditions, 2008 financials show a huge net loss.	No show cause hearing
97-640	Daimler Chrysler (Detroit Axle 1374)	no	no	yes	70.16%	no	In lieu of financials, other information reviewed. Chgs in eco/mkt conditions. Company filed for bankruptcy, which lead to restructuring and new company, Chrysler Group LLC. <b>Certificate expires in 2011.</b>	No show cause hearing
02-368	Arrow Chemical Products	no	yes	no	72.73%	yes	Company able to keep number of jobs retained as promised, but has chosen to hire temporary workers instead for busy times. Financials show a positive net income, but would show a net loss if tax abatement was omitted and number of new jobs promised were in place on a full time basis. Poor economy has reduced the need of cleaning products from customers.	No show cause hearing
98-672	Milano Bakery	no	yes	yes	80.00%	no	In lieu of financials, looked at other information. Company privately held. Company unable to meet promised number of jobs due poor economy, including the loss of accounts. Company did exceed promised level of investment by \$1.7 million. <b>Certificate expires in 2010.</b>	No show cause hearing. Assessors to remove from tax by December 31, 2010.

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98-512	Superb Manufacturing Inc	no	yes	yes	80.31%	no	In lieu of financials, looked at other information. Company privately held. Company unable to meet employment goals based on dramatic decline in North America auto production. Company exceeded investment goal by \$1.5 million. Superb Manufacturing is a part of the Bing Group. <b>Certificate expires in 2012.</b>	No show cause hearing
99-310	Detroit Salt Company	no	yes	yes	83.93%	no	In lieu of financials, looked at other information. Company privately held. Company unable to meet hiring goals due to usage of better technology, seasonal variances and shrinking of economy resulting in cut backs in road salt usage.	No show cause hearing
00-534	Bing Steel Management, Inc	no	yes	yes	89.55%	no	Employment level good and investment goal exceeded by \$6.2 million. Auto production decrease causing the company to possibly be sold.	No show cause hearing
03-227	Coca Cola Enterprises	no	yes	yes	90.73%	yes	Company unable to meet hiring goals due to economy/less production lines. Company's 2008 consolidated financials reflect net loss. Company exceeded investment goal by \$1.3 million.	No show cause hearing
06-172	Verndale Products, Inc.	no	yes	yes	91.30%	yes	2009 financials show a loss. Sales down due to less production. Company exceeded investment goal almost by a \$1 million.	No show cause hearing



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99-306	Detroit Heading	no	yes	yes	95.29%	no	In lieu of financials, reviewed other information. Company is privately held. Company unable to meet hiring goals due to downturn in auto industry and local economy.	No show cause hearing
03-571	Vitec	no	yes	yes	96.10%	no	In lieu of financials, reviewed other information. Company is privately held. Company unable to meet hiring goals due to downturn in auto industry and local economy.	No show cause hearing
05-654	Sherwood Foods	no	no	no	97.52%	no	In lieu of financials, reviewed other information. Company is privately held. Abatement for <u>personal</u> property investment. Company completed phase I at higher cost but did not complete phase II due to negative economic conditions. As a result, company unable to meet hiring/investment goals; but hiring goals almost met.	No show cause hearing
05-655	Sherwood Foods	no	no	no	97.52%	no	In lieu of financials, reviewed other information. Company is privately held. Abatement for <u>real</u> property investment. Company completed phase I at higher cost but did not complete phase II due to negative economic conditions. As a result, company unable to meet hiring/investment goals; but hiring goals almost met.	No show cause hearing
97-655	Gonzalez Manufacturing Tech	no	yes	yes	10.96%	yes	<b>Certificate expired in 2009. Company did not meet employment goals due to downturn in auto industry. Company temporarily closed in 2006 and restarted with smaller operations. 2008 financials did show a loss.</b>	<b>No show cause hearing. Will check with Assessors to remove from tax roll.</b>

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97-699	Ronart Industries	no	yes	yes	17.33%	no	In lieu of financials, reviewed other information. Tool & Die shop suffered severe reduction in operations due primarily to downturn in auto industry. Certificate expires in 2010. Company exceeded investment goal by \$1.3 million.	No show cause hearing. Assessors to remove from tax roll by December 31, 2010.
96-717	American Axle & Manufacturing	no	no	yes	58.87%	yes	Certificate expired in 2008. 2008 financials show a huge loss.	No show cause hearing. Will check with Assessors to remove from tax roll.
96-527	Bing Steel Management, Inc	no	yes	yes	46.59%	no	Certificate expired in 2008. Lear Corp moving several jobs to Mexico severely hurt company operations.	No show cause hearing. Will check with Assessors to remove from tax roll.
98-441	Caravan Technologies	no	yes	yes	25.00%	no	In lieu of financials, reviewed other information. Company unable to meet hiring goals due to poor local economy. Certificate expires in 2010	No show cause hearing. Assessors to remove from tax roll by December 31, 2010.
97-641	Daimler Chrysler (McGraw Glass)	no	no	no	N/A	no	Plant sold-Certificate Cancelled. Certificate to expire in 2010.	Need show cause hearing. Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.
97-134	Detroit Edge Tool	no	yes	yes	65.08%	yes	Certificate expired in 2008. Financials show profit, but removal of abatement and the hiring needed to meet goals would put company in loss position.	No show cause hearing. Will check with Assessors to remove from tax roll.
97-562	Diversified Machine	no	no	yes	N/A	no	Plant Closed 12/31/08. Certificate to expire in 2011.	No show cause hearing. Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.

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98-725	Diversified Machine, Inc	no	no	yes	N/A	no	Plant Closed 12/31/08. Certificate to expire in 2012.	Need show cause hearing. Human Rights/DEGC to confirm closing. If closed, Council requests State Tax Commission to revoke abatement.
97-563	JSP International	no	yes	yes	84.21%	yes	Certificate expired in 2009. Company is profitable in 2008, but financials show significant drop from previous year. Company's major client went out of business.	No show cause hearing. Will check with Assessors to remove from tax roll.
96-338	Piston Automotive	no	yes	yes	8.33%	yes	Certificate expired in 2008. 2008 financials show a marginal profit, but would turn into a loss minus the abatement and meeting hiring goals. Existing contracts have expired with no replacements.	No show cause hearing. Will check with Assessors to remove from tax roll.
96-711	Ronart Industries	no	yes	yes	22.81%	no	In lieu of financials, reviewed other information. Tool & Die shop suffered severe reduction in operations due primarily to downturn in auto industry. Certificate expires in 2008.	No show cause hearing. Will check with Assessors to remove from tax roll.
96-708	Shaw & Slavsky	no	yes	yes	52.63%	no	Certificate expired in 2009. Company unable to meet hiring goals due to automation, economy, using temporary employees and sales fluctuations.	No show cause hearing. Will check with Assessors to remove from tax roll.
01-447	Arvin Meritor	yes	no	yes	568.50%	yes	Removed from consideration. Positive jobs performance. Equipment retirement caused 36% 2008 investment level of original investment. 2008 financials do show loss.	No show cause hearing

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02-507	American Axle & Manufacturing	no	yes	yes	837.37%	yes	2008 financials show significant reduction in client customers and a huge loss in operations. Note: 2,353 actual employment at 12/31/08 for entire company. Some employment numbers are skewed at individual company locations.	No show cause hearing
99-722	American Axle & Manufacturing	no	no	yes	67.15%	yes	2008 financials show significant reduction in client customers and a huge loss in operations. Note: 2,353 actual employment at 12/31/08 for entire company. Some employment numbers are skewed at individual company locations.	No show cause hearing. However, Council may have a separate hearing concerning company's relocation of operations to Mexico.
00-692	American Axle & Manufacturing	yes	no	yes	837.37%	yes	2008 financials show significant reduction in client customers and a huge loss in operations. Note: 2,353 actual employment at 12/31/08 for entire company. Some employment numbers are skewed at individual company locations.	No show cause hearing
03-525	Technicolor Videocassette of Michigan	yes	yes	yes	101.03%	yes	<b>Removed from consideration. Positive jobs performance. Actual investment exceeded goal by almost \$1 million. 2008 financials of parent show consolidated loss, however.</b>	No show cause hearing
98-312	Ideal Shield	yes	yes	yes	117.86%	no	<b>Removed from consideration. Positive jobs performance. Also, in lieu of financials other information reviewed. Privately held co. Certificate to expire in 2012.</b>	No show cause hearing
96-710	Westcott Displays, Inc	yes	yes	yes	121.43%	no	<b>Removed from consideration. Positive jobs performance. Certificate expired in 2008.</b>	No show cause hearing. Will check with Assessors to remove from tax roll.

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<b>98-159</b>	<b>Rampart Industries</b>	<b>no</b>	<b>no</b>	<b>no</b>	<b>N/A</b>	<b>no</b>	<b>Expansion never occurred / no report-CERTIFICATE REVOKED 12/30/09 DUE TO COUNCIL RECOMMENDATION</b>	<b>No show cause hearing. Will check with Assessors to remove from tax roll.</b>